

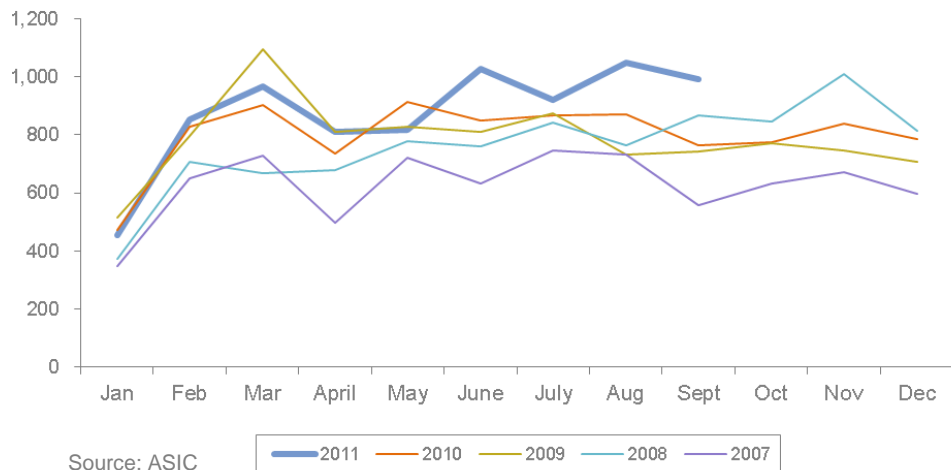
Insolvency Insights – September 2011

Taylor Woodings' Analysis of ASIC's Latest External Administration Appointments Statistics

10 November 2011

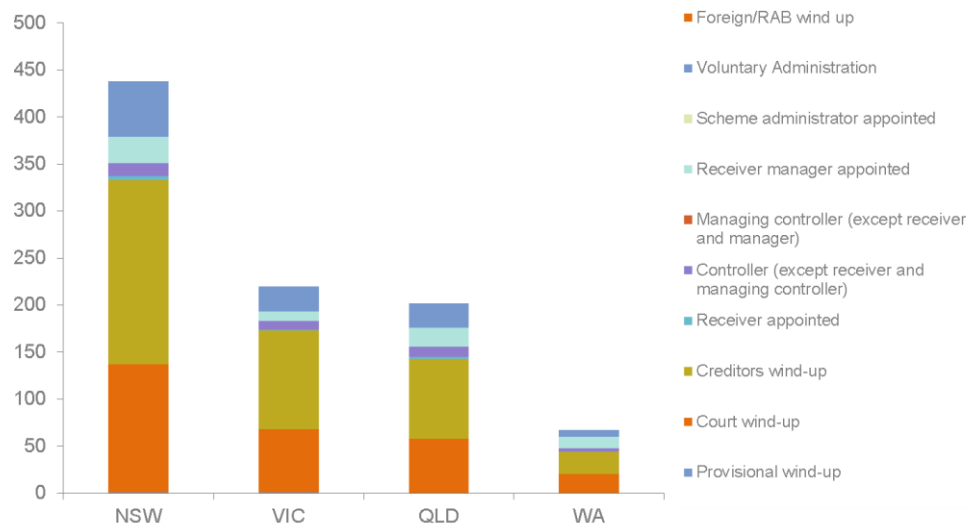


Companies Entering External Administration



Source: ASIC

Comparison of Appointments by State



Source: ASIC

The Figures

What these latest figures suggest

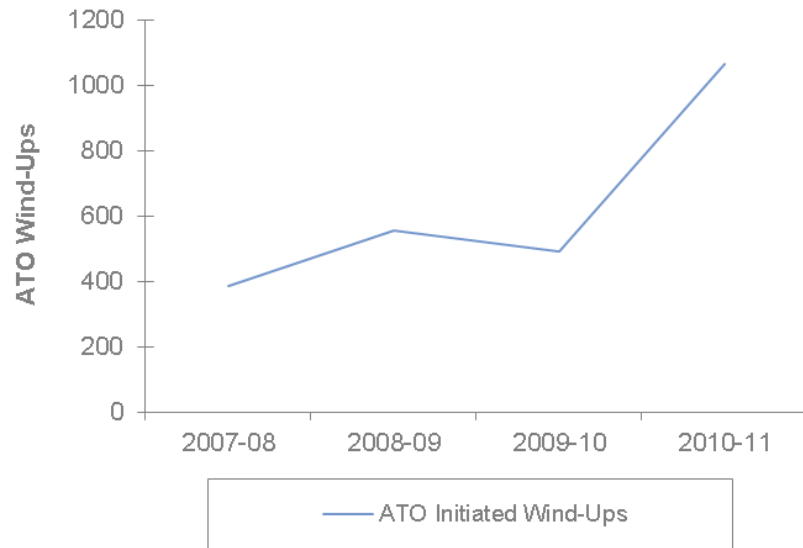
- Total company collapses for September have fallen slightly, down 5.5% from 1,049 in August to 991, however they still remain at historically high levels.
- The total figure represents the highest number of company collapses on record for the month and is 22.7% higher than September last year. These stubbornly high external administrations show the effects of the Global Financial Crisis (“GFC”) are still being felt by Australian businesses.
- The number of external administrations for the September quarter is the highest quarter on record – 10.3% higher than the previous quarter and 20.5% higher than the 2009 September quarter during the GFC.
- All states and territories except for Tasmania, Northern Territory and the Australian Capital Territory revealed record highs for the September quarter, with Western Australia increasing 19.3% on the previous quarter – a sign non-mining businesses in the state are under pressure.

Economic Influences

What's happening in the broader market with particular attention to macro influences on insolvency?

- September's economic data was mixed and showed varied conditions across industries, with business and consumers conflicting in their outlook of the economy.
- Volatility in global markets and increasing consumer savings continued to have a dampening effect on business confidence. The National Australia Bank's Quarterly Business and SME Surveys both recorded sharp drops in confidence, each falling nine points to negative four and negative 10 points respectively in the September quarter.
- The Australian Bureau of Statistic's (“ABS”) Building Approvals fell 14% in the month, following an 11.4% rise in August and the ABS New Motor Vehicle sales fell 1.5% from a 15-month high.
- Despite these figures, the Commonwealth Bank Business Sales Indicator recorded the biggest growth in 23 months – up 0.2% in September.
- In spite of falling house prices in capital cities, household sentiment improved. The Westpac-Melbourne Institute Index of Consumer Sentiment rose 8.1% to 96.9 in September and Australia's unemployment rate exceeded expectations, falling from a 10 month high of 5.3% in August to 5.2% in September.

ATO Initiated Wind-Ups By Financial Year



Source: ATO and ASIC

For More Information

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Special Focus

- In recent years, the Australian Tax Office (“ATO”) has reported the annual total number of ATO-initiated company wind-ups. If a business has outstanding tax debts, the ATO can take a number of actions including issuing director penalty or garnishee notices. If directors fail to act, the ATO may exercise its right to wind-up the company to recoup unpaid taxes.
- The ATO’s 2010-11 Annual Report released last week showed ATO-led company wind-ups surged 116%, from 493 to 1066. This represents 10.9% of all companies wound-up in FY2011 compared with just 5.3% of all companies wound-up in FY2010.
- ATO-initiated wind-ups for FY2011 represented 40.4% of all court liquidations, compared with just 20.2% in FY2010.
- These figures confirm what we have observed for some time – the ATO is using its regulatory ‘teeth’ and taking a firmer approach to the collection of company tax liabilities.
- This unofficial policy follows a period of relative leniency in the aftermath of the GFC when the ATO entered individual payment agreements with businesses granting extensions to pay tax liabilities without penalty.

Outlook

What we predict for the future and what inferences we can draw

- The outlook for the Australian economy and company insolvency figures remains very uncertain and hinges on consumer and business confidence. In turn, confidence levels are largely dependent on a resolution to the European debt woes.
- Continued negative confidence, coupled with a more vigilant approach by the ATO, will see Australian company insolvency figures remain at historically high levels. We expect insolvency figures may fall slightly in the months leading into Christmas as businesses attempt to ‘trade-through’ the festive season. In previous years, insolvency figures reach their lowest in January before spiking in March.
- The Reserve Bank of Australia’s (“RBA”) hope is that their recent rate cut – the first since 2009 – will restore business and consumer confidence and stimulate spending. However, while Europe’s debt woes cast an ominous shadow over the domestic economy, in our view, confidence will remain subdued.
- To quote RBA Governor, Glenn Stevens in his most recent Monetary Policy Decision: “[I]t is likely to be some time yet before concerns about the European situation can definitively be laid to rest and the effects of the recent turmoil on confidence may result in a period of precautionary behaviour by firms and households”.